

Other Observations and Recommendations on Internal Control and Financial Operations

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| Process | Medicaid |
| Title | Classification and Collection of Claims by the Department of Mental Health (DMH) |
| Observation | DMH experienced problems during Fiscal Year (FY) 2004 regarding classification and tracking of collections for claims. Although collections are properly recorded in total, eliminating potential significant misstatement of the financial statements, they are not always posted to the correct appropriation year and/or service type. Actions such as write offs are based on balances per appropriation year; however, the detail necessary to properly determine the amounts to be written off is not accurately maintained as noted. |
| Recommendation | KPMG recommends that DMH establish effective management review procedures to ensure that collections are being classified and posted correctly. |
| Management's Response | <p>The Department of Mental Health has begun a monthly, in-house reconciliation within the Financial Reporting Unit by the 15th of each month for the previous month's activities. Additionally, a quarterly reconciliation between the program managers and the Medicaid office within the Department of Health is also being implemented to ensure proper posting of cash receipts to the appropriate account and year.</p> <p>Monthly EIS reports will be maintained for review and tracking of revenue posting. These reports will be used by the Financial Reporting Unit to track these postings and complete reconciliations when required.</p> |

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| Process | Procurement Process |
| Title | Internal Control over Contract Approvals and File Maintenance. |
| Observation | Ten of forty files selected for detail testing of the District's procurement process did not contain sufficient documentation to support the respective procurement. Upon examination of the files, KPMG noted that they were either not provided or did not have the necessary documentation to perform procedure. Of the ten files provided by OCP and other District of Columbia contracting agencies, we noted that five of the files were issued through the DC Supply Schedule, but did not have a tracking system to account for purchase orders. The purchase orders in these files were issued citywide to the same vendors and in the aggregate may have exceeded one million dollars, which would have required District Council approval. We also noted that procurements made by two agencies (Department of Mental Health and Child and Family Services Administration) outside the control of OCP, did not obtain District Council approval on three contracts that exceeded one million dollars. |

Appendix B

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| | <p>These contracts may be executed without the appropriate approvals and funding documents in place, due to the following:</p> <ul style="list-style-type: none"> • Contracting personnel may not have followed the policies and procedures regarding file maintenance; • Office of Chief Technology Officer's (OCTO's) personnel did not maintain external files when contracts were approved upon the implementation of the new PASS system; and/or • There was no centralized tracking system to monitor purchase orders issued under the DC Supply Schedule. |
| Recommendation | <p>KPMG recommends that the OCP and the exempt District of Columbia agencies review the current policies regarding file maintenance and implement guidelines for improvement. Focus should be placed on the system having common characteristics such as document retention. In addition, although a tracking system was implemented in mid-Fall 2004, we suggest that it be monitored by senior management to ensure its accuracy and completeness. Periodic reviews should be conducted with commodity managers and their procurement teams, along with senior procurement personnel, to ensure compliance with dollar limitations and the approval process are maintained.</p> |
| Management's Response | <p>OCP management concurs with the auditor's finding and recommendation, and will initiate the following actions:</p> <ol style="list-style-type: none"> 1. <u>Improved Enforcement of Contract File Documentation and Retention Policies.</u> By no later than March 25, 2005, OCP management will disseminate to all OCP contracting personnel (including those responsible for executing OCTO controls) a Contract File Preparation Policy requiring them to maintain adequate and appropriate external contract file documentation in accordance with the OCP contract documentation and retention policies already in place. To further improve its contract fields and records management, OCP is presently collaborating with the OCTO on an electronic document management initiative. 2. <u>OCP Management Use of Tracking System for Contract Monitoring.</u> OCP senior managers have already begun, and will continue to monitor all contracts under OCP's jurisdiction (including purchase orders placed against District of Columbia Supply Schedule (DCSS) contracts) that have been captured in the existing OCP centralized contract tracking system. While the primary purpose of this monitoring is to ensure effective workload management for all OCP contracts, particular attention will be given to ensuring that contract thresholds are respected and not exceeded without prior authorization (e.g., DCSS contracts with associated purchase orders exceeding \$1 million). 3. <u>OCP Contract Operational Reviews.</u> Beginning in March 2005, OCP senior procurement personnel will conduct periodic contract operational reviews with their respective commodity teams to ensure compliance with applicable contracting laws, regulations, procedures, and best practices. |

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| | These reviews will identify contracts exceeding \$1 million, and emphasize the rules and procedures for preparing and transmitting such contracts to the DC Council for review and approval. |
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| Process | Procurement |
| Title | Procurement Automated Support System (PASS) Application Controls |
| Observation | PASS controls can be bypassed to process questioned invoices for payment in R*STARS. PASS process controls exist to ensure a two and three way match where appropriate. PASS suspends invoices when a dispute arises, however, management has the ability to manually override this control and process the disputed invoices for payment in R*STARS. |
| Recommendation | The Director of procurement should ensure that the approval and authorization process in PASS is enforced to prevent unauthorized, invalid or inaccurate purchases or payments. |
| Management's Response | <p>Management concurs with the finding.</p> <p>Since R*STARS is under the purview of Office of the Chief Financial Officer (OCFO), and PASS technical infrastructure is controlled by OCTO, OCP recommends that principals from OCP, OCFO, and OCTO collaborate to develop a joint policy to prevent unauthorized, invalid, or inaccurate purchases or payments- whether through PASS or R*STARS. In the meantime, OCP will collaborate with OCTO and the OCFO to decommission R*STARS/ADPICS pursuant to April 2005 release of PASS, and also cooperate with OCTO and the OCFO to communicate to affected District agency personnel the decommissioning of R*STARS/ADPICS.</p> |

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| Process | HealthCare Safety Net |
| Title | Additional Improvement Needed in Contract Management |
| Observation | In FY 2004, the District implemented the "Medicaid bump," which is essentially a system check that identifies all Medicaid eligible patients in a HealthCare Safety Net Administration (HCSNA) claims submission. The 'bump' is completed prior to claims submission to HCSNA and all Medicaid eligible patients are identified and subsequently removed from the submission. The claims are, in turn, appropriately submitted to Medicaid. The "Medicaid bump" corrected the prior year reportable condition regarding Medicaid eligible claims being incorrectly submitted to HCSNA. |

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| | <p>However, HCSNA continues to struggle with providing adequate oversight to the contracts associated with the Administration. Although some new procedures have been implemented, we noted that no procedures are in place to assess <i>current</i> contract compliance. Although a consultant performs agreed-upon procedures and issues a report that addresses the accuracy of claims data submitted by providers under the terms of their contracts, this report only covers the first six months of the fiscal year. No mitigating procedures are in place that covers the remaining six months. HCSNA only performs provider site visits after year-end, thus the District does not have sufficient FY 2004 data to conclude on contract compliance in FY 2004.</p> |
| Recommendation | <p>Even though some policies and procedures that increased the effectiveness of HCSNA's oversight capability were implemented in FY 2004, we recommend that the District of Columbia increase its effort by completing site visits throughout the current year in order to provide feedback, implement changes, and make adjustments prior to the issuance of the financial statements. In addition, we recommend that the District of Columbia increase its efforts by adequately staffing and sufficiently funding the contract oversight mission of the HCSNA to enable the agency to more effectively carry out its duties.</p> |
| Management's Response | <p>The HCSNA does not have a separate procedure manual to address compliance issues. Many of the contract compliance issues, since the inception of the program, are addressed in the fourteen (14) contract modifications to the "DC Alliance Master Agreement" with the Alliance partners. The partners are requested to submit monthly reports, which are analyzed by the HCSNA and used in developing the scope of several focus audits. Please note that the semi-annual payment reconciliation audit mentioned by the auditors was also completed on an annual basis. The HCSNA conducted following audits in FY 04.</p> <p>A: Administrative Costs audit of the fees paid to Chartered Health Plan Inc., as the Administrative Services Organization for the DC Alliance program</p> <p>B: The claims and adjudicating processes used by Chartered-Health Plan Inc.</p> <p>C: Operating costs paid to Unity Health Care Inc., for the management of the six former PBC clinics.</p> <p>D: The Access maintenance costs paid to Greater Southeast Community Hospital for the management of the Urgent Care Center on the DC General Campus.</p> <p>E: An evaluation was conducted on the cost, usage and dispensation of pharmaceuticals to DC Alliance patients.</p> <p>F: Delmarva is in the processing of completing a clinical audit that began in FY 2004. The audit is still in progress.</p> <p>G: The HCSNA staff began an audit, in FY 2004, on CHP's eligibility and enrollment practices. The audit will be completed in FY 2005.</p> |